CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2023 --- 4th Quarter

A WELCOME RECOVERY IN 2023

Strong investment returns for the fourth quarter of 2023 pushed the overall returns for the year into double digits for most everyone. For the quarter, the S&P 500 Index was up +11.69% with a huge +26.29% for the year as a whole. The U.S. bond market was up +6.82% for the quarter (Bloomberg U.S. Aggregate Bond Index) and +5.53% for the year. We are seeing personal investment returns for the year in a range from approximately 10% to 25%, depending on the mix of stocks and bonds.

What happened to the widely predicted recession that was supposed to wreak havoc on the U.S. economy this year? Entering 2023, more than 85% of economists expected a U.S. recession (a major slowdown of our economy) before year's end. Google searches for the term "recession" hit the highest mark in history! What we had in 2023, and are still experiencing, are mini-recessions in various industries at various times without much synchronization. People talk about the "COVID recession" maybe because we don't have a better word. What has been happening is not totally because of "normal" forces. Governments threw money at the problem, and the economy has needed time to adjust.

Not all recessions or economic cycles are the same. But looking back on underlying conditions – and focusing specifically on technology, banking and housing – provides a roadmap to how and why the U.S. avoided a recession in 2023.

1. **Lofty tech valuations and earnings growth.** The magnificent seven stocks (Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla and Meta) were big drivers and captured a majority of returns in the overall market. The high valuations are backed up by earnings and cash that lend merit to their status as market leaders.
2. **Banking contagion was contained.** Back in March 2023, the banking crisis was an interest rate issue rather than a credit issue. It was the result of the Fed's very fast interest rate hikes. One of the fastest in history. The emergency lending program offered solutions to banks, allowing nervous depositors confidence to trust the system.
3. **Housing supply and demand dynamics have changed.** The Fed's rate hikes have dampened home sales. This has served as a backstop for volatility, such as that which occurred in 2008.

Many think a short, mild recession or downturn is still possible. But if consumer spending in particular doesn't let up, then this widely expected recession might never show up.

Looking forward, as long as inflation continues to cool, the Federal Reserve may begin to reduce interest rates sometime in 2024. Supply chains have eased which means prices of core goods will come down, gas prices have sunk lower as demand falls, and there is continued moderation in rents and wages.

There will still be surprises in the short-term causing some volatility, but the many pieces to the puzzle look to be moving in a good direction. The best course of action is to remain invested with a mix of investments that fit your personal goals and time horizon.

Feel free to call Nan or Ann at 414-431-6491 with your questions.

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